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## NOTES

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### THE CARTELS IN WAR TIME

From the viewpoint of political economy the present European war has produced numerous interesting and important developments. Theories which in the past had gained quite universal acceptance have during the past year been put to an acid test. A restandardization and readaptation have become necessary with respect to various conceptions in the realm of economy, which have hitherto been quite firmly rooted in the minds of the public, as well as of scholars.

Of the economic organizations throughout the world, perhaps none have during the past twelve months undergone a more crucial test than those of Germany, the marvelous strength and efficiency of which today challenge the admiration of even those who in the past have observed them more or less closely.

The gigantic operations of Germany's army, railroads, and banks constitute truly brilliant achievements of governmental economic efficiency. In the field of private (individual) economy, German commerce and industry are producing results equally amazing. The factor which here has proved to be the backbone of Germany's industrial life is the German cartels, those unique, co-operative organizations which, in times of peace, overcame that *bellum omnium contra omnes* so baneful to commercial activity and development, and in its stead succeeded in weaving together an economic organism, the solidarity of which not only placed Germany in the front ranks among the leading commercial countries, but also has proved itself a tower of strength during the present war. The German cartels are co-operative combines of independent enterprises in allied industries for the purpose of regulating demand and supply and centralizing the business management in the mutual interest. With respect to their outer organization, as well as from a legal point of view, German cartels differ essentially from our so-called trusts in that they lack the permanent and organic amalgamation of the latter, and, unlike our trusts, are not capitalistic organizations, but essentially economic, co-operative enterprises.

It can be readily seen that the cartels, numbering about six hundred, afford the government a most handy and welcome means for controlling

and regulating economic conditions during the war. Through them the German government was enabled to establish a rapid survey of supplies on hand and of possibilities of production, as well as to estimate accurately the value of certain commodities and to distribute orders and contracts equally. As a result of this rigid organization of German industry, raw materials and labor were more easily obtained and could be utilized to the best advantage, minimizing waste. The credit of the individual business man was rendered more secure.

The comprehensive system of checking, controlling, and regulating supply and demand—the various clearing-houses and common selling agencies, where the business of the cartels is centralized and equalized—minimized business risks essentially and enabled the business world to adapt itself to the new conditions arising.

A practical instance of the effect of co-operative trade combination was furnished by the leather industry. Within a few weeks after the outbreak of the war, the price for upper leather, which was not covered by any cartel agreement, rose 70 per cent, whereas the price for sole leather, controlled by a cartel, during the same period increased only about 10 per cent. Up to last spring the price of upper leather increased about 150 per cent, while sole leather showed an increase in price of only 43 per cent.

The cartel form of organization has proved to be so serviceable that the German government during the past year has twice formed compulsory cartels. On December 5, 1914, the potato-drying industry was placed under government supervision, and quite recently the coal cartel was continued under pressure from the government.

The syndicate agreement of the Rhenish-Westphalian Coal Syndicate, one of the largest and most powerful combines in Germany, was to expire on November 30, 1915. For many months conferences had been held among the members of the syndicate for the purpose of renewing the syndicate agreement, but no agreement was reached. Certain large interests (especially the Thyssen interests) held out, it is alleged, because they expected a big boom in the coal industry after the close of the present war, and wanted more leeway than they would have under a syndicate agreement which would allot the output and fix prices. Fearing that the dissolution of the coal syndicate would result in high prices and would seriously affect economic conditions, the Imperial Federal Council on July 12, 1915, issued a decree which provides that "Unless up to September 15, 1915, at least a temporary agreement be made which is to run till the end of March, 1917, the *Landeszentralbehörden*

(state central authorities) shall combine the owners of hard coal and lignite into compulsory companies. The prices are to be fixed by the general meeting of the combines. A government commissioner is to be a member of these compulsory combines with certain veto rights.

As a result of this action by the government, all the recalcitrant mine owners immediately agreed to a renewal of the Rhenish-Westphalian Coal Syndicate, and a new agreement was made to run till March 31, 1917.

This was not the first time that the German government took such an advanced step in the control of industrial monopolies. Already, in 1910, the potash (*Kali*) industry, in which Germany possesses a natural monopoly, was by a special law organized into a compulsory syndicate. The government war-grain company, which last year took over the control of certain foodstuffs, is a still more recent application of the same principle. As a direct result of the efficiency of the cartel system, new cartels have been organized continuously ever since the outbreak of the war, especially in those industries which have been hit hardest, like the building trades and manufactures of articles of luxury and of export goods.

Coal and potash are the two most important natural resources of Germany. Their equitable distribution and consumption constitutes a problem of vital importance to the German people, in the solution of which the recent decree of the government marks important progress.

Outsiders who have hitherto fought the combine are now clamoring to be taken into the cartel, recognizing that in unity there is strength. Especially to the small industrials, who otherwise would have been forced out of business, the cartels have proved a veritable blessing.

In the past the German public did not always look with favor upon the cartels. Many viewed them with growing concern, while others attacked them most bitterly. Since the present war began the cartel system of industrial organization with one exception has merited the universal approbation of the German people. During the first weeks of the war numerous complaints came to the attention of the government regarding certain textile cartels which tried to enforce their old contracts and refused to extend credit terms. Immediately a meeting of the parties concerned was called in Berlin, August 28, and a mutually satisfactory agreement was reached. It is said that the government had a special, very rigid, anti-cartel law ready, which it intended to promulgate in case no understanding was reached.

Great as the efficiency of these organizations has been in the past, still more is expected of them in the future. The Franco-German War

of 1870-71 entrained in its wake a period of financial depression and a severe crisis in the world of finance. That was the very time when German financiers and economists began to develop and apply the cartel idea to Germany's industry and trade with such marked success. If it is true that history is the mentor of life, the co-operative system of organization underlying the German cartels may, at the conclusion of the present war, once more serve as a preventive factor in safeguarding business conditions. It is not improbable that at the moment when peace is concluded the present exorbitant prices of raw materials will drop and that all values will more or less collapse. Then the cartel organizations may be expected to make their strength felt and to act as parachutes in preventing economic disaster on a large scale—to preserve stability in general, and thus to render to the country at large, and to Germany's industries in particular, a very important service.

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## WASHINGTON NOTES

### THE FIRST YEAR OF THE FEDERAL RESERVE SYSTEM

The federal reserve system has completed the first year of its existence—November 16, 1915, being the anniversary of the opening of the banks. The year has not, however, been a year of complete operation, owing to the fact that it was necessary to open the banks promptly in order to relieve the financial stringency of 1914. It was impossible to issue at once complete regulations governing the conduct of the banks on a uniform footing. The process of preparing and issuing these regulations, and of securing uniform action, consumed several months, and a fair estimate of the first year's work will recognize the fact that only during the latter part of that time can the banks be said to have been really operative. The unusual ease of money throughout the whole year, the large release of reserves which occurred simultaneously with the opening of the banks, owing to the reduction of reserve requirements, and other conditions, would in any event have tended to prevent the banks from attaining their full scope during the first twelve months, even if they had been fully organized for work at the outset.

Certain definite results have, however, been unquestionably accomplished, as follows:

First, the new banks have taken a long step toward securing the standardization of commercial paper. There has also been a very